STAFFORD COUNTY SCHOOL BOARD

Agenda Consideration

TOPIC: 457(b) Deferred Compensation Plan/ Amendments to Regulation 5-32.1 Payroll Deductions – Tax Sheltered Annuities

ITEM NO: 4D

PREPARED BY: H. Charles Woodruff, II
Assistant Superintendent of Financial Services

Lucy N. Maddy
Director of Payroll and Benefits

MEETING: May 11, 2004

ACTION DATE: May 25, 2004

ACTION REQUESTED BY THE SUPERINTENDENT:

That the School Board approve Zurich Life and AIG VALIC as vendors to offer a Deferred Compensation Plan as provided in Section 457(b) of the Internal Revenue Code to employees of Stafford County Public Schools effective July 1, 2004. Pursuant to School Board approval of the vendors for the 457(b) Deferred Compensation Plan, approve updating Regulation 5-32.1 Payroll Deductions – Tax Sheltered Annuities to include the two (2) vendors for voluntary payroll deductions.

KEY POINTS:

A 457(b) Deferred Compensation Plan will provide employees of the school division an opportunity to invest, side-by-side, in a 403(b) and a 457(b) Deferred Compensation Plan. Features of a 457(b) Deferred Compensation Plan that benefit employees are:

- Available to all employees
- Additional plan to reduce income taxes while boosting retirement savings,
- Earnings will accumulate tax-deferred,
- Contributions are not offset by contributions to a 403(b) Annuity Plan, and
- Upon termination of service no 10% penalty on distributions taken prior to age 59 ½, as there is in a 403(b) plan.

Update Regulation R5-32.1 Payroll Deductions – Tax Sheltered Annuities to include the addition of a 457(b) Deferred Compensation Plan and approved vendors for payroll deduction as approved by the School Board.

SCHOOL BOARD GOAL 6:

Introduce programs to enhance employee status, within the school division and the community at large, so that employees are aware of their value to school and community. Measurable Objective 8 – By June 2004, the Department of Finance will institute payroll deductions for a voluntary 457 savings plan for employees. Measurable Objective 10 – By July 2004, the school division will implement a health benefits package with options for all employees.

FUNDING SOURCE: N/A

AUTHORIZATION REFERENCE: Internal Revenue Service Code

457 DEFERRED COMPENSATION PLAN

A 457 Deferred Compensation Plan is a retirement plan provided in Section 457 of the Internal Revenue Code. A 457 plan is similar to a 403(b) plan where contributions are made through payroll reduction, occur on a pre-tax (tax deductible) basis, and accumulate tax-deferred until withdrawn. 457 plans are not new, however, prior to 2001, Tax Act regulations made it impractical for public school systems to offer 457 plans. Under the old law, elective deferrals to a 457 plan reduced (on a dollar-for-dollar basis) the amount that could be contributed to other types of retirement plans. For example, if you contributed the maximum amount allowed with a 403(b) tax deferred annuity; you could not contribute to a 457 plan. The Tax Act repeals this restriction. Effective January 1, 2002, an employee of a public school system is eligible to participate in either a 403(b) plan or a 457 plan – or both – and can contribute up to the maximum deferral limit of both plans. The employee decides how much of the salary is to be contributed and completes a deferred compensation agreement with the employer. The amount contributed and any earnings are not subject to current federal and state income taxes until distributed. A 457 plan can help retirement savings grow with before-tax contributions and tax-deferred earnings – a special tax advantage.

CONTRIBUTION LIMITS FOR 457 PLAN & 403(b) PLAN:

Contribution limits are the same for a 457 Plan and a 403(b) Plan. An employee may contribute the lesser of 100 percent of compensation or a maximum of:

Year	Under Age 50	Age 50 or Older
2004	$13,000	$16,000
2005	$14,000	$18,000
2006	$15,000	$20,000

(After 2006, contribution limits will be adjusted for inflation in $500 increments.)

If the employee is age 50 or over during the calendar year, he/she may contribute an additional amount into the Deferred Compensation Plan for all plan years except during the years he/she is using the Standard/Additional Catch-Up Provision.

BENEFITS OF 457 PLAN OVER 403(b) PLAN:

- Upon termination of service no 10% penalty on distributions taken prior to age 59 ½, as there is in a 403(b) plan.
- No recurring administrative charge or surrender charge on withdrawals taken due to death, disability, separation from service or an unforeseen emergency.
- Participants in a 457 plan, may contribute up to an additional 100% of the basic deferral limit in each of the last three (3) calendar years prior to the designated normal retirement age.

Standard/Additional Catch-Up
$26,000
$28,000
$30,000

- The Age 50+ Catch-Up Provision and the Standard/Additional Catch-Up Provision cannot be used in the same calendar year.

BENEFITS TO EMPLOYEE OFFERING BOTH 403(b) AND 457 PLAN

As a result of the 2001 Tax Act, 403(b) and 457 plans are more similar than before.

- Increased retirement limits.
- Contributions to 403(b) or 457 not offset by maximum deferral limit of either plan.
- Both plans allow contributions to be made on a pre-tax (tax deductible) basis and accumulate tax deferred until distributed.
- Employees can use assets in 457 and 403(b) plans to "buy back" past service credits in defined benefit plans. Assets used would not be taxable because it is considered a transfer and not a distribution.

RECOMMENDATION:

There were four companies who responded to the RFP. A representative from the Human Resources Department, a Principal, an Administrator, and the Financial Services Department evaluated the RFP responses. Representatives evaluating the responses unanimously recommended Zurich Life and AIG VALIC as 457(b) Deferred Compensation Vendors of choice. Implementation of a 457 Deferred Compensation Plan is recommended for the following reasons:

- Available to all employees.
- An additional plan to reduce income taxes while boosting retirement savings.
- Earnings accumulate tax-deferred.
- If an employee changes jobs, employee can consolidate savings in another employer's 457 plan, a qualified 401 plan, a tax-sheltered 403(b) annuity plan, or an IRA.
- Contributions not offset by contributions to 403(b) or 401 plans.

It is recommended that the 457(b) Deferred Compensation Plan be available to employees July 1, 2004, as a payroll deduction. Zurich Life and AIG VALIC have agreed to provide the school division a Plan Document at no cost. The Plan Document is an IRS requirement.

PERSONNEL

Voluntary Payroll Deductions-Tax Sheltered Annuities/
457(b) Deferred Compensation Plan

Responsible Department: Department of Financial Services

A. Generally

Tax-sheltered annuities and 457 (b) Deferred Compensation Plans are available to all employees. An employee may enroll, change or stop an election at any time during the year except that ten (10) and eleven (11) month employees may not enroll, change or stop an election during the month of July, August, and September.

B. Tax-sheltered Annuities - Approved Vendors

1. Aetna Life Insurance
2. American Express Financial Advisors (IDS)
3. Capital Guardian Trust - American Funds Group
4. Equitable
5. Horace Mann
6. Metropolitan Life
7. Nationwide Life Insurance Company
8. New York Life
9. Primerica Financial Services
10. VALIC (Variable Annuity Life Insurance Company)
11. Virginia Retirement Specialists, Inc.

The number of approved vendors for tax-sheltered annuities shall not exceed ~~eight (8)~~ eleven (11) at any given time plus such additional vendors that meet and satisfy required enrollment criteria in timely fashion for inclusion on the payroll of February 1, 2000. Vendors must have an initial enrollment of thirty (30) employees with an active roster of twenty-five (25) accounts to be granted payroll deduction privileges by the Superintendent.

C. Tax-sheltered 457(b) Deferred Compensation - Approved Vendors

1. AIG/VALIC

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PERSONNEL

Voluntary Payroll Deductions-Tax Sheltered Annuities/
457(b) Deferred Compensation Plan

Responsible Department: Department of Financial Services

2. Zurich

D. Vendor Requirements for Participation

Vendors must first complete the pre-requirements as requested by the ~~Central Office Staff~~ Department of Financial Services to be approved for payroll deduction before soliciting business from any employee of Stafford County Public Schools.

a. No appointment may be conducted with an employee during instructional hours.

b. Vendors may leave their business cards and brochures in employee mailboxes at each base location with the permission of the ~~Central Office Staff~~ Department of Financial Services and the principal or supervisor.

c. Voluntary meetings may be held before or after school hours at base locations with the principal or supervisor's permission.

d. Vendors may not speak at mandatory staff meetings.

e. Any report of harassment of an employee or negative comments about other vendors or their products may terminate a vendor's privilege of payroll deduction.

Vendors must provide a maximum exclusion allowance (MEA) on all employees who participate in tax-sheltered annuities/deferred compensation plans ~~TSA's~~ initially and for all changes that are made to tax-sheltered annuities/deferred compensation plans ~~TSA~~ deductions. ~~The VRS portion paid by the School Board and~~ The total tax-sheltered annuities/deferred compensation plans (may be more than one vendor) must be used in the calculations for MEA's for tax-sheltered annuities/deferred compensation plans. ~~The vendor must provide MEA~~

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~~calculations for all current participants and new enrollees by February 1, 2000.~~

Failure of a vendor to submit a MEA calculation will result in a loss of continued payroll deductions for the employee.

Approved by the Division Superintendent: November 3, 1999